

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

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INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 CEQ-01

EPA-01 IO-13 NSF-01 /108 W
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R 230935Z APR 76

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 5173

INFO AMCONSUL KARACHI

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E.O. 11652: N/A

TAGS: ENRG, EINV, PK

SUBJECT: ESSO-GOP AGREEMENT ON DEVELOPMENT OF MARI
GAS FIELD

REF: ISLAMABAD 3828

BEGIN SUMMARY: ESSO KARACHI REP HAS CONFIRMED THAT GOP
AND ESSO HAVE AGREED IN PRINCIPLE ON ALL MAJOR POINTS IN
SALE OF ESSO MARKETING AND REFINERY INTERESTS IN EXCHANGE
FOR DEVELOPMENT OF MARI GAS FIELD. ESSO WILL OBTAIN
MAJORITY OWNERSHIP IN MARI, AND IT WILL RECEIVE THE
APPROXIMATELY \$6 MILLION PRICE IT ORIGINALLY ASFCBOF
WW

ITS INTERESTS IN THE REFINERY AND ITS MARKETING ASSETS.
THE GAS WELLHEAD PRICE AGREED ON IS SLIGHTLY LOWER TT
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ESSO'S INITIAL REQUEST, BUT THE GOP HAS APPARENTLY
AGREED THAT IT CAN BE ADJUSTED IN CASE OF DEVALUATION

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OR DOMESTIC INFLATION. ESSO EXPECTS DETAILED AGREE-

MENT TO BE SIGNED BY JUNE 1 AND EXPANDED PRODUCTION
FROM MARI TO BE READY IN TIME FOR OPENING OF NFC
FERTILIZER PLANT IN 1978. END SUMMARY.

1. ESSO KARACHI REPRESENTATIVE CHARLES ROSE CALLED ON
EMBASSY APRIL 21 AND CONFIRMED OUR EARLIER UNDERSTANDING
(REFTEL) THAT ESSO AND GOP HAD REACHED AGREEMENT IN
PRINCIPLE ON ALL OF THE MAJOR FEATURES OF THE UHLE OF
ESSO REFINERY AND MARKETING INTERESTS IN EXCHANGE FOR
DEVELOPMENT OF THE MARI GAS FIELD. THE AGREEMENT IS
VERY CLOSE TO ESSO'S ORIGINAL OFFER. ESSO AND GOP
LAWYERS ARE NOW DRAFTING THE PRECISE LANGUAGE OF ZAE
NUAGREEMENT, AND ESSO EXPECTS TO SIGN BY JUNE 1.

VM THE MAIN POINTSVF THE AGREEMENT ARE AS FOLLOWS:

A. OWNERSHIP OF MARI FIELD: ESSO WILL OBTAIN 51
PERCENT OWNERSHIP IN THE MARI FIELD VENTURE, LEAVING
THE GOP WITH 49 PERCENT. THIS IS TO BE ACCOMPLISHED
BY HAVING THE GOP PURCHASE 64 PERCENT OF THE SHARES
MOBIL IS SELLING, AND ESSO PURCHASE THE REMAINING
36 PERCENT. THE PROCEEDS OF THIS SALE ARE TO BAQ
REMITTED IMMEDIATELY TO MOBIL.

OX

B. SALE OF ESSO REFINING AND MARKETING INTERESTS:
ESSO IS TO RECEIVE APPROXIMATELY \$6 MILLION FOR
ITS SHARES OF PAKISTAN REFINERY LIMITED AND OF
ITS MARKETING ASSETS. THE PROCEEDS OF THE SALE
OF ESSO REFINERY SHARES WILL BE REMITTED IMMEDIATELY
IN DOLLARS. THE PROCEEDS OF THE SALE OF ESSO
MARKETING ASSETS WILL BE DEPOSITED IN A NON-
RESIDENT DOLLAR ACCOUNT, WHICH WILL ACCUMULATE
TAX-FREE INTEREST AT THE THEN CURRENT INTEREST
RATE. THESE FUNDS WILL BE USED FOR THE DEVELOP-
MENT OF MARI. ESSO ALSO HOPES TO REACH AGREEMENT
THAT, SHOULD ANY OF THESE FUNDS NOT BE NEEDED
FOR MARI, THEY CAN EVENTUALLY BE REMITTED TO
EXXON.

C. PRICE OF MARI GAS: THIS IS THE ONLY AREA
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IN WHICH THE ESSO-GOP AGREEMENT SEEMS TO HAVE
FALLEN SHORT OF ESSO'S INITIAL REQUEST. THE GOP
HAS AGREED THAT ESSO MAY RECEIVE RUPEES .90
PER THOUSAND CUBIC FEET (MCF) OF GAS FROM ALL
ITS CUSTOMERS STARTING FROM THE BEGINNING OF
THE NEW DEVELOPMENT WORK ON MARI FIELD
(PRESUMALY SOMETIME THIS SUMMER). ESSO IS
NOW GETTING ONLY 0.40 PER THOUSAND CUBIC FEET.

ESSO WILL RECEIVE RUPEES 1 PER MCF FROM THE TIME OF THE FIRST SUPPLY OF MARI GAS TO THE NATIONAL FERTILIZER CORPORATION PLANT (PAK-SAUDI, FORMERLY KNOWN AS MIRPUR MATHELO). ESSO HAD ORIGINALLY INSISTED ON A MINIMUM PRICE OF RUPEES 1.15 PER MCF, AND HAD OFFERED AS A FALLBACK POSITION AN AGREEMENT WHEREBY THEY WOULD RECEIVE RUPEES 1.15 PER MCF STARTING FROM THE DATE OF THE FIRST SUPPLY OF MARI GAS TO THE FAUJI AGRICO PLANT. BECAUSE OF THE UNCERTAINTY OF AGRICO'S INVOLVEMENT IN THE FAUJI PROJECT, ESSO THEN DROPPED THIS DEMAND AND AGREED TO SETTLE FOR A PRICE OF RUPEES 1 PER MCF. THEY STILL HOPE THAT WHEN AND IF THEY SIGN A SUPPLY AGREEMENT WITH THE FAUJI FERTILIZER VENTURE, THIS WILL PROVIDE FOR A PRICE OF RUPEES 1.15 AT LEAST FOR GAS DELIVERED TO THAT PLANT.

D. DEVALUATION PROTECTION AND PRICE INDEXING:
THE GOP HAS AGREED IN PRINCIPLE THAT ESSO SHOULD BE PROTECTED AGAINST DEVALUATION OF THE RUPEE AND AGAINST INFLATION. IT REFUSED ESSO'S INITIAL REQUEST THAT THERE BE SOME EXPLICIT CONTRACTUAL

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INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

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OBLIGATION ON THE GOP TO COMPENSATE FOR ANY DEVALUATION. IT ALSO REFUSED ESSO'S REQUEST THAT THE GAS PRICE BE INDEXED TO SOME MEASURE OF INFLATION WITHIN PAKISTAN. INSTEAD, THE GOP HAS OFFERED TO "REVIEW" ESSO'S OPERATING EXPENSES WITH A VIEW TOWARD GRANTING ESSO PRICE INCREASES ITOIWHE EXZDNT THAT DEVALUATION OR INFLATION RAISED COSTS. THE PROCEDURES FOR THIS REVIEW ARE STILL TO BE WORKED OUT, AND ESSO'S LAWYERS ARE TRYING TO MAKE THEM AS AUTOMATIC AS POSSIBLE.

3. ROSE SEEMED CONFIDENT THAT THE REMAINING NEGOTIATIONS WOULD PROCEED REASONABLY SMOOTHLY AND THAT WORK WOULD NOW PROCEED PRETTY MUCH ON SCHEDULE. BARRING ANY UNFORESEEN DIFFICULTIES, HE EXPECTED THAT MARI WOULD BE ABLE TO SUPPLY THE PAK-SAUDI PLANT WHEN IT CAME INTO OPERATION. PAK-SAUDI HAS ASKED FOR INITIAL SUPPLIES OF GAS AS EARLY AS THE FALL OF 1977, AND EXPECTS TO START PRODUCTION IN THE SPRING OF 1978.

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4. WHEN QUERIED ABOUT WHY ESSO IS GETTING OUT OF MARKETING AND INTO GAS PRODUCTION IN PAKISTAN, ROSE REPLIED THAT THEIR PROFIT RETURN FROM THEIR REFINERY SHARES AND FROM THEIR FILLING STATION NETWORK WAS UNATTRACTIVELY LOW. LOOKING INTO THE FUTURE WITH THE GOP OPERATING A RIVAL REFINERY AND FILLING STATION NETWORK AND CONSIDERING THE GOVERNMENT'S RECORD OVER THE LAST FEW YEARS OF BEING UNSYMPATHETIC TO REQUESTS FOR PRICE CONTROL INCREASES, ESSO DECIDED IT WAS WISER TO DISINVEST. THE PROBLEM WAS HOW TO SELL THE ASSETS AND GET THE MONEY OUT OF PAKISTAN. THE VEHICLE CHOSEN WAS TO REFUSE TO BRING IN NEW MONEY TO DEVELOP THE MARI GAS FIELD, AND INSTEAD TO PERSUADE THE GOVERNMENT TO PROVIDE THE RESOURCES THROUGH SALE OF ESSO'S MARKETING FACILITIES WHICH IT HAD SOME INTEREST IN DOING ANYWAY.

5. AS FOR PROFIT OUTLOOK FROM THE MARI FIELD, ESSO IS UNDER NO ILLUSION THAT IT IS GOING TO MAKE BONXCNZA PROFITS. IT DOES BELIEVE THAT THE LIKELY RATE OF RETURN FROM DEVELOPING MARI WILL BE SLIGHTLY HIGHER THAN WHAT IT IS NOW RECEIVING FROM THE REFINERY AND FILLING STATIONS. HOWEVER, THE ARRANGEMENTS REACHED ENABLE ESSO TO DISINVEST FROM AN UNPROMISING SERVICE AND PROVIDE A VEHICLE FOR EVENTUAL REPATRIATION OF THE \$6 MILLION

SALE PROCEEDS VIA FUTURE PROFIT REMITTANCES FROM MARI.
ITIGLSO EXPWFDS THE GOP PUBLIC SECTOR, WHICH ELEMENTS
IN THE GOVERNMENT WELCOME, AND PROVIDES A MEANS FOR
THE GOVERNMENT TO GET THE MARI FIELD DEVELOPED.
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